

Ameristar takeover a likely bet in near future

New York (Reuters) – Ameristar Casinos, one of the few U.S. gaming companies with no presence on the glamorous Las Vegas Strip or Atlantic City, hardly seems like a tempting takeover target, especially amid a gambling slowdown.

Yet buyout rumors are swirling around Ameristar, the operator of casinos in such off-the-beaten-track locations as Jackpot, Nevada and Council Bluffs, Iowa.

In many ways, Ameristar, which has a market value of about USD 750 million, seems like anything but a prize. Its stock has fallen more than 50 percent this year. The death of its founder and chief executive about two years ago ushered in an era of uncertainty, and another CEO resigned last month.

Nearly half of the company's shares are slated to pass on to a foundation that focuses on spinal cord research and will probably have its own agenda.

Still, that sense of relative disarray at the company, plus the unsung advantages of regional casinos in a down market, could actually make it a tempting target.

„I think an acquirer would look at Ameristar as a way to drive business to destination markets,“ Nick Danna, senior gaming analyst at Sterne, Agee and Leach, said. „Ameristar properties have customer databases of the best players in those regional markets. A buyer would get access to that information and could lure those customers to California and New Jersey.“

In an industry once thought immune to recession, casino companies are hurting as a housing downturn, a weak economy and a credit meltdown are keeping Americans from the whirl of slot machines and the risk of poker.

Casino companies with properties on the glitzy Strip and not-so-glamorous Atlantic City are hurting more than companies like Ameristar, whose seven casinos are based in Missouri, Iowa, Mississippi, Nevada and Colorado.

Still, everyone is struggling.

To casino operators such as MGM Mirage, Las Vegas Sands and Boyd Gaming, with heavy exposure to Las Vegas and Atlantic City, Ameristar could provide an escape from the cities where competition has become too intense.

It could also allow them to bring in more customers to Las Vegas and Atlantic City through cross-marketing.

Estate Structure

A more compelling reason to bet on an Ameristar sale: the transfer to founder Craig Nielsen's estate of 31.5 million shares following his death in 2006. That's just north of a 50 percent stake.

The move triggered speculation about a sale, causing the shares to rally to a record of USD 31.32 the day after.

The shares have since fallen more than 58 percent.

Nielsen's estate announced in October it was evaluating strategic „alternatives“ for its Ameristar holdings.

Former Chief Executive John Boushy's resignation in June this year sparked another round of speculation.

„While we do not believe anything is imminent, the recent changes may signal that the company could be up for sale, particularly once gaming industry valuations improve and the credit markets become more liquid,“ Macquarie Group gaming analyst Joel Simkins said in a note after the resignation.

Likely Buyers

The usual suspects would be private equity firms, major players in the casino industry recently, taking Harrah's and Station Casinos private in the past year.

But as banks take billions of dollars in mortgage losses, private equity firms are struggling to borrow money.

The retreat of private equity firms has made more assets available at cheaper prices for strategic buyers.

Penn National, itself the target of a now-scuttled private equity buyout, is to receive USD 1.45 billion in compensation for the deal falling through, and could now be ready to spend part of that settlement.

„Penn would be interested, and it would be a good fit, but Ameristar at this point is going to ask for a very high premium,“ one banker, who declined to be identified, said. „I don't think Penn would want to pay that premium right now.“

Penn has said it plans to grow through acquisitions and buy up other companies' debt.

JP Morgan analyst Joseph Greff said that Ameristar is a viable target for Penn but that a deal might not come soon.

„Given the current market conditions and how hard it is to get financing, we might not see a deal in the coming months.“

MGM Mirage, which has properties in Illinois, Michigan and Mississippi but is struggling a bit in Atlantic City and Las Vegas, could also be a possible buyer.

The casino operator could also get a financing boost from Dubai World, a holding company for the Dubai government which recently made a USD 5 billion investment in MGM Mirage. Partnering with sovereign wealth funds flush with cash has become a creative way to find financing for deals amid the U.S. credit crunch.

Australian gaming group Crown Ltd, owned by billionaire James Packer, has denied speculation that it wants to buy Ameristar but two people familiar with the company's thinking said it has looked at Ameristar and made no decision.

One more factor pointing toward a deal: Neilsen's estate may have a donation schedule to keep, and it's hard to predict how long the estate's executors would be willing to hold out.